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Olena Yu. Sova

Candidate of economic sciences,
Associate Professor of the Department of National Economy and Finance,
University of Economics and Law "KROK"

The financial control of insurance companies

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The insurance sector, along with the rest of the financial sector, has faced significant changes in recent years, and such changes have brought new products and services, new tools, goals and objectives. Financial control systems of the insurance companies have to be adapted to better cope with this evolving scenario.

Depending on the nature of the relationship financial control can divide into internal and external. This is called internal control, if subject and object belong to the same system, and external – if supervision is provided by the subject, which does not belong to the same system as the object.

Internal control means a system of procedures, processes and actions that the insurer is required to systematize in a manner compatible with the nature, complexity and level of risk involved in its current operations and with respect to foreseeable changes in its operating conditions, so as to prevent excessive risk exposure of the company and irregularities in the company's operations as well as to protect the interests of policyholders, third party claimants and other creditors of the company.

Insurance undertakings should implement appropriate systems to monitor their internal control's efficiency and effectiveness. Monitoring should be carried out on an ongoing basis, complemented with separate evaluations. As an integral part of an internal control system, and in keeping with the diversity and complexity of the insurance undertaking's activity, there should be an effective and comprehensive internal audit carried out by operationally independent, appropriately trained and competent staff.

Internal control has limitations and managers need to know that even the best system will only provide reasonable (not absolute) assurance that financial reporting errors, fraud and operating inefficiencies will be identified and controlled. The level of assurance that your system provides may very well be determined by the amount of monitoring conducted by management. When management takes the time to find out if controls are being implemented as designed, a message is sent to all employees that internal controls are important.

In establishing and maintaining an effective system of internal control an insurance undertaking should regularly assess both the internal and external risks that it faces. Assessment should include the identification and analysis of all the significant risks that an insurance company is exposed to, and act accordingly.

The primary purpose of internal control is to continuously evaluate whether a firm is meeting its objectives and to ensure that the board, managers and employees are all working to ensure the success of these strategies while keeping the level of risk at an acceptable level. In so doing a sound system of internal control should be able to reduce (but rarely eliminate) poor judgement in decision making; human error; the deliberate failure to follow control processes by employees and managers; and the impact of unexpected events.

The control mechanisms introduced will enhance the quality of insurance businesses. This will result from on-going reviews, verification, evaluation and the adjustment of old principles and solutions to meet new needs and conditions. This is the only effective way of exploring new risk types and their effective

management, or at least one that will not jeopardise an insurer as a going concern [1, 107].

For an insurance company, in connection with its role in providing insurance protection, the principal financial interest performs the maximization of the market value of the insurer, but it must be the enhancement of the equity of the owners will occur simultaneously the needs of insurers, protect the interests which the state provides.

The modern system of financial control of Ukrainian's insurance companies needs to be improved in parts: reducing the number of subjects external controls of insurers; associations of functions of state institutions, the establishment a mega-regulator financial markets (including the insurance market); the interaction of the internal control of insurers with state authorities; automation of business processes of insurers and state regulatory agencies; the use of international experience and implementation in Ukraine of new approaches to measure the solvency of insurers based on Solvency II; the creation of insurance the internal service organizations of the controlling (audit).

The company shall systematize, apply and develop internal controls system in compliance with the law, by formulating such organizational structure, written procedures, processes and actions that ensure risk identification, measurement, assessment and management, as well as implementation and ongoing review of such structure, procedures, processes and actions and their adjustment to any changes in the operating conditions of the company.

In addition, we are in an era of globalisation, with closer links among the different sectors, constant mergers and acquisition processes with an international scope. Such a situation needs to be taken into account when drafting a set of internal control principles, as we cannot leave aside what is being done in other markets or sectors.

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